Company Name: ISS A/S
Company Ticker: ISS DC
Date: 2015-05-21
Event Description: Q1 2015 Earnings Call

Market Cap: 44,690.34
Current PX: 240.70
YTD Change($): +62.60
YTD Change(%): +35.149

Bloomberg Estimates - EPS
Current Quarter: 3.423
Current Year: 14.120
Bloomberg Estimates - Sales
Current Quarter: 19808.333
Current Year: 79142.333

Q1 2015 Earnings Call

Company Participants

- Nicholas Ward, Head of Investor Relations
- Jeff Gravenhorst, Group Chief Executive Officer
- Heine Dalsgaard, Group Chief Financial Officer

Other Participants

- Jonas Guldborg Hansen, Analyst
- Michael Vitfell-Rasmussen, Analyst
- Kristian Godiksen, Analyst
- Jesper Jensen, Analyst
- Poul Ernst Jessen, Analyst

Presentation

Operator

Welcome to the ISS Interim Report for Q1 2015 Conference Call. At this time, all participants are in a listen-only mode, later we will conduct a question-and-answer session. Please note that this conference is being recorded. Your conference will begin momentarily. A short introduction will now be played before the presentation begins and after the introduction, the call will be turned over to Nicholas Ward, Head of IR.

(Introduction played) Ladies and gentlemen, this is Nick Ward, Head of Investor Relations at ISS, and I'd like to welcome you to our Q1 2015 results teleconference. Please be aware that the announcements, the quarterly report, as well as the slides used for this call can also be found on our website. Later today, a replay will be available and we'll post the transcripts of the call as soon as it is ready.

I'd like to draw your attention to slide number two regarding forward-looking statements. The agenda for the call is outlined on slide three. And as usual presenting today will be Group CEO, Jeff Gravenhorst; and Group CFO, Heine Dalsgaard. We'll open for Q&A at the end of the presentation.

And with that, I'll hand over to Jeff.

Jeff Gravenhorst, Group Chief Executive Officer

Thank you, Nick. If you could please turn to slide number five. And welcome everybody to our Q1 results call. ISS had a pleasing start to 2015 with regards to our operating performance, organic growth of 3.1%, slightly up from the 2.7% we delivered in the fourth quarter of last year. Our margin increased year-over-year by 10 basis points to 4.4%. And our cash conversion remains strong at 97%. Given these positive developments and our improved capital structure, post the IPO, the net result of 426 million was significantly higher than that of last year.

So overall, a good development in the first quarter of 2015, mainly driven by our three strategic priorities. First one being Integrated Facility Services, bundling services under one contract through a chosen customers. Our Q1 performance as to large extent been driven by this particular product offering, the Integrated Facility Services.

So currency adjusted IFS growth was 9% in Q1, driven by new contract startups including Vattenfall in Germany, and Swisscom in Switzerland. IFS now represents 32% of the Group revenue. Moreover, we have also announced some significant divestments including UBS in UK, Huawei in China and RWE in Czech Republic and the Danske Bank in the Nordic region. These wins should support -- help support our organic growth during the year as well. Our Global Corporate Clients represent 10% of Group revenue now, the currency-adjusted growth within GCC was 6% as we increased our scope -- scope of services with our current guidelines. So overall a good development within the IFS sector.

Emerging markets also continues to grow. Emerging markets now accounts with [ph] 26% of Group revenues up from 25% in Q4. Organic growth was 7% in the quarter, in line with Q4 last year. And the operating margin was 10 basis points higher on a year-on-year comparison, at 6.1%. We also continue to make good progress on our strategic initiatives including procurement, customer segmentation, business process outsourcing, organizational structure and other excellent projects.

In line with our guidance, these initiatives are driving a steady improvement in our margins. We have also completed further investments of non-core activities including our landscaping activities in Belgium and the Group based security activities in India. Finally, we completed the acquisition of GS Hall, which will materially enhance our existing technical services capabilities within Europe. The integration is progressing well and we have now started to self deliver certain services that were previously subcontracted.

So in summary, a solid start to 2015. However, it is important to note that the background macroeconomic conditions remain challenging, part of Europe remained tough, especially the Netherlands and whilst the overall growth in the emerging market remains healthy, certain countries are proving difficult, most notably is Brazil. The strength and resilience of our results are largely a testament to our strategy of self-delivery, integration and successful execution.

Now please turn to slide number six. So we've spoken in the past about why we believe Integrated Facility Services -- why we think there is a growing number of clients who wants the service and how the global growth rates for IFS are some way higher than those for the overall facility services market. I would like to spend just a few minutes on two of the key IFS contracts that started in the first quarter and that's a notable positive effect on our financials especially within Western Europe.

Turning to Vattenfall, our relationship with Vattenfall goes back some nine years, today we provide soft, hard and specialized nuclear services at four nuclear sites in Sweden. However, our relationship with Vattenfall in Germany is strong, Germany was a major economy where IFS penetration had been low and where our industry recognition until now had not been where we wanted it to be and where we need it to be.

So we won the contract in Germany, our largest ever German contract because Vattenfall wanted a (inaudible) with significant large scale transformational experience given our strong credentials outside Germany, Vattenfall show the benefits of ISS being a major global player. Moreover we work very closely with Vattenfall to explore ways in which we can optimize the full value of an outsourced security services solution delivering on quality, not just on price. This is a very important contract for us in Germany providing a strong platform from which we can deliver future growth.

The Swisscom story is a little bit different. Here, we also have a longstanding relationship with the client, but this time in the same country and with a single service. ISS is recognized in Switzerland as a leading provider, thanks largely to our outstanding country management team. Swisscom one of the partner with a proven track record within IFS as well as the local management team with the flexibility to make swift decisions. The contract got off to a great start and we are hopeful that there will be further opportunity to strengthen our relationship with this client -- this important client.

The contract raises our profile within the important Swiss ICT sector. So in summary, Integrated Facility Services is a driver of growth and margin for ISS. We are very well placed to win key contracts, given our strong credentials across the Group and our proven track record.

As we grow our IFS portfolio, this creates additional revenue opportunities with both existing customers, but we can increase our scope of services and secure additional non-portfolio work as we've seen within GCC in the first quarter. And with prospective customers who come to understand the merits of the integrated self-delivery model.

I would now like to hand over to Heine to take us through some of the financial highlights.

Heine Dalsgaard, Group Chief Financial Officer

Thank you, Jeff. So turning to slide seven, you will see once again our three key financial priorities namely, resilient organic growth, improved operating margin and strong cash conversion. Organic growth improved to 3.1% in Q1, slightly higher than the 2.7% we delivered in Q4. The result was driven by stronger growth from Western Europe, largely due to the impact from the new contract start up as well as ongoing strength in Turkey.

Organic growth in the Pacific remained strong at 10%. Our organic growth from emerging markets was 7% in line with the level achieved in Q4. We delivered a 10 basis points year-on-year improvement in our operating margin to now 4.4%. Once again, Western Europe and Nordics were the key drivers, and it is clear that our strategic initiatives are positively contributing to our financial results.

That said, our margin LatAm fell 100 basis points year-on-year with Brazil largely the issue. In addition, our corporate costs have increased to 0.8% of sales, which is in line with the comments we made during our 2014 full year results call in March this year. Cash conversion for the last 12 months was 97%, reflecting a strong cash performance across the Group. As you all know, cash generation remains a key priority for us in ISS. I should also highlight that our net financial expenses were impacted by FX loss of DKK54 million in the quarter.

I will provide more detail on this impact later on during the call, but just wanted to highlight upfront that these losses are a consequence of unusual volatility in the exchange rates during the first quarter and that they are non-cash in nature. Despite these negative FX impact, we still managed to significantly improve our profit before goodwill impairments to now 426 million, up from 73 million in Q1, 2014.

With this, I would like to hand back to Jeff to take us through the regional performance.

Jeff Gravenhorst, Group Chief Executive Officer

Thank you Heine. Please turn to slide number nine. So what we have seen is a slight pickup in our organic growth rate in developed markets from 1% in Q4 last year to 2% in Q1 this year. Emerging markets organic growth has remained stable at overall 7%. In terms of operating margin we have seen a 10 basis point improvement year-over-year in emerging markets and a very healthy 40% basis point uptick in our developed markets.

So let's look into the regions starting with Western Europe on slide 10. In Western Europe, we have had a good start to the year. Organic growth improved from 0% in Q4 to 2% in Q1. Operating margin improved by 50 basis points year-over-year. We stated on the Q4 call that we did not expect any macroeconomic support and that has indeed also proven to be the case.

Demand for our non-portfolio services remains low in certain markets, notably Netherlands remain very challenging and are likely to be so for the rest of the year. As previously mentioned, growth in the UK continues to be impacted by the loss of the healthcare contract in Q4 last year.

As we have highlighted already, the main driver for the improved growth has been the start-up of new IFS contracts especially Swisscom and Vattenfall. It is worth noting that the IFS growth is not just about winning large international contracts but these two a single country contracts. Equally, growth is not always have just about IFS, Turkey is a great example of that. We have an outstanding business, which drives consistently strong organic growth, margins and cash conversion in a marketplace where the IFS concept is yet to really take off. However, we believe IFS will become a driver in Turkey in due course and ISS is well positioned to benefit from that transition. Our focus on operational excellence continues to bear fruit. Our initiatives have focused largest in the Nordics and Western Europe, so there's no surprise that this is where we're seeing the bulk of the margin improvement.

However, in Western Europe, we've also benefited from the divestment of landscaping in France, which delivered low margins in Q1 last year, currency and also some time effect, year-over-year margin improvement. So it's not all due to the underlying developments, but overall good development in Western Europe.

Turning to the Nordic region, organic growth slowed from 3% in Q4 last year to 1% in Q1 this year. However, the operating margin improved by 30 basis points year-on-year to 5.3%. We did see some pickup in non-portfolio demand in Finland and Sweden, but this was offset by weakness in Norway largely due to the loss of Statoil contract in Q2 last year and also the general economic weakness in Norway.

In addition, organic growth in Denmark slowed relative to Q4 due to the annualization [ph] of the Danish Defense contract that started last year. Despite these losses, Norway was the key driver in the region for the improved margins. Thanks to the optimization of the organization and cost structures. I would also like to mention our recent IFS contract win Danske Bank which is the largest ever facility service contract in Denmark but also encompasses the rest of the Nordic region. This contract will ramp up during Q4 2015.

Please turn to slide 11. Q1 organic growth in Asia was 8%, up slightly from 7% in Q4. Operating margin was 30 basis points lower year-over-year. The growth has remained strong in India, Indonesia and China. India has benefited from increased work for Global Corporate Clients. Indonesia saw a strength within the securitization and China has been boosted by new contract wins. The Huawei contract in China only started in April this year, so we will give you more update on these two customers in the next quarterly call. Hong Kong, saw no growth in the quarter, activity levels here are tied quite closely to the China's property market, which is under pressure.

That said, we've recently had some contract wins and we expect to see growth to continue to improve from here. Whilst the margin for the region was lower. This is almost entirely due to the -- to India and in particular the disposal of the high margin security activities in December 2014 -- disposal of the high margin security in December 2014. Elsewhere, we've seen good margin improvements.

Q1 organic growth of 6% in Latin America was in line with the Q4 results. However, the margin was 100 basis point lower year-over-year. Chile, Argentina and Mexico delivered the strongest performance on the back of IFS growth. Some improved demand from non-portfolio services, price increases and the ongoing impact of Global Corporate Clients contract started last year.

Brazil, however, is tough right now against the difficult macroeconomic backdrop contract churn has increased and customers are seeking to downscale services. It is expensive to reduce headcounts in Brazil and hence the lower activity impacts on the margin. Brazil is the cause of the regional deterioration in operating margin with both Mexico and Chile actually seeing healthy margin improvements.

Please turn to slide number 11. Q1 organic growth in Pacific remained strong at 10% versus 13% in Q4. The operating margin also showed healthy 70 basis points improvement year-over-year. In January, we started our first Queensland accommodation Village contract, strategically important step for us. We also started a last cleaning contract in Melbourne University. As we stated in our Q4 results call, we do expect organic growth in the region to slow during the year as the contribution from the large contract wins last year annualizes. The pipeline is not as buoyant as it was during the '13 and '14 due to in part to the Australian economy and associated slowdown in the regional sector.

We do expect to deliver margin improvement for the full year and make good progress within both healthcare and resource segment. However, 70 basis points off lift in Q1 was boosted by the disposal of commercial security activities in April 2014.

In North America, the organic growth slipped to minus 2 in Q1 versus plus 2 in Q4. The operating margin, however, improved by 40 basis points year-over-year. North America is in the midst of a transformation focusing more towards larger, more profitable IFS contracts and less towards single service cleaning. As such, there has been a higher level of portfolio churn, which has been negative for growth, but good for margins. The region has restructured its sales effort and expect to deliver better growth in due course. Margin outside [ph] was also driven by increased non-portfolio activities within our Global Corporate Clients.

Finally, in Eastern Europe, organic growth was 1% in Q1 versus 3% in Q4 and operating margin improved by 100 basis points year-over-year. Organic growth was strongest in Russia. Thanks to new contracts, started in '14 and '15. The Czech Republic, Slovenia and Romania also made positive contributions offset by some contract losses elsewhere. Margins were boosted by Global Corporate Clients both in Slovenia and non-portfolio activity in Slovakia and contract rationalization in Poland and Pacific.

With that, I would like to hand back to Heine for some more details on the financials.

Heine Dalsgaard, Group Chief Financial Officer

Thank you, Jeff. Please turn to slide 14. So total revenues increased by 9% year-on-year to now 19.1 billion. Divestments and acquisitions impacted revenue growth by net minus 4%. The major disposals that impacted this figure were landscaping in France, commercial security in Pacific and personal services in Nordics, all of which were sold last year. On January 20, this year we announced the acquisition of GS Hall with an annual revenue of approximately 700 million.

We also completed two further small divestments in the quarter namely route-based [ph] security in India and landscaping in Belgium with the total revenue, annual revenue of DKK87 million. Currency fluctuations boosted revenue growth by 6% primarily relate to British pound, Swiss francs and the US dollar. Finally, as we've seen throughout the presentation, organic growth was plus 3.1%.

Please turn to slide 15. Our operating profit increased by DKK58 million year-on-year to 843 and as we've discussed previously, the margin increased by 10 basis points to now 4.4%. The operating margin was positively impacted by FX fluctuations and the net impact from divestments and acquisitions. However, it was also negatively impacted by the phasing of procurement savings, and more importantly by a step up in our corporate costs from 0.5% of revenues in Q1, 2014 to now 0.8% in Q1, 2015.

This as I said in line with our previous commentary that on a full year basis, our corporate costs would increase from 0.7% in 2014, to around 0.8% in 2015. Given the seasonality of our margins, we choose to illustrate the evolution of our operating margin on an LTM basis and on this measure as you can see from the chart, we have been trending slightly higher over last six quarters.

Please turn to slide 16. And here are some highlights from the income statement. So, other operating income and expenses amounted to a net expense of DKK19 million in the quarter. This figure includes 7 million on restructuring projects and 5 million of acquisition cost related for the GS Hall acquisition. The level of restructuring costs will increase in the remaining quarters of 2015, as we start executing on the strategic initiatives across a certain key countries. Financial income and expenses amounted to DKK416, some 341 million lower than Q1 2014. Thanks to the reduction in net debt, post IPO and lower interest costs after our refinancing. However, this figure does include 54 million of net FX losses, something I will explain in more detail on the next slide.

Income taxes amounted to 182 million equivalent to an effective tax rate of 30% in line with our expectations for the full-year. Profit before goodwill impairment amounted to 426 million, some 353 million higher year-on-year. Goodwill impairment of 6 million relates to the divestment of our Belgium landscaping activities.

Now please turn to slide 17. Given FX movements in Q1 were unusually volatile, we thought it would be helpful to explain the impact on our net financial expenses. The vast majority of our debt is in euro given the pick [ph] between the Danish kroner and the euro, this exposure is not hedged. In addition, we have a number of inter-company launch, Group policy is to fully hedge FX exposure towards the DKK or the euro, where that exposure exceeds 5 million. In certain instances this hedging is not possible or it is overly expensive.

Here we can see the proxy hedgings, for example, against the Indian rupee, Brazilian real or the Turkish lira. FX movements during Q1 were set unusually volatile and we saw two main FX related effects within our net financial expenses. First and despite the pick, significant speculation in the FX market ultimately led to a weakening of the Danish krone versus the euro during the quarter. As you can see from the first of the charts on this slide the DKK-euro or the euro-DKK rate ended the first quarter above the upper end of its typical range. Given our significant euro exposure on external debt, this led to a hit of approximately DKK24 million in the quarter.

Secondly, the historic correlation between the US dollar and the Brazilian real, which started to break down during the second half of 2014 collapsed completely, this led to a hit of approximately DKK20 million in the quarter. There are three key takeaways from this; one, these Q1 FX moves were highly unusual; two, the charges taken through the income statement are non-cash in nature and three whilst we still have a number of proxy hedges, our Brazilian real inter-company balance is now significantly reduced as throughout both Q4 2014 and Q1 2015. We have replaced the inter-company loans with the equity.

Please turn to slide 18. Cash flow from operations amounted to an outflow of 682 million in the quarter, an improvement of 358 million year-on-year. As we've highlighted previously, our cash flow is highly seasonal, and the first quarter of each year contain some significant cash outflows. On an LTM basis, our cash conversion remained very strong at 97% versus 98% at the end of 2014. Changes in provisions, pensions and similar obligations include a DKK85 million impact from increased pension liabilities, as a result of Vattenfall employees transferred to us along with our five-year contract that started on January 1st this year.

The year-on-year reduction in our net interest paid of 192 million, once again reflects the significant reduction in our debt and lower borrowing costs. It is also worth noting the difference between our cash interest and P&L interest. This reflects some loss, non-cash charges, such as the previously mentioned FX losses and amortization of financing fees. Finally, our cash tax rate was 35% in the quarter, which primarily reflects timing differences between the quarters of 2015.

Please turn to slide 19. Finally, I highlight once again our policy with regards to shareholder returns, here, nothing has changed. Our business is characterized by stable through side of organic growth and margins and strong cash generation. We have provided further evidence of this during this first quarter of 2015. We continue to target financial leverage below 2.5 times pro forma adjusted EBITDA taking the seasonality of our cash flow throughout the year into consideration.

As expected, our leverage has risen since year-end from 2.6 times to 2.9 times, but it is lower than the 3.2 times at the end of Q1, 2014. And again, as a reminder, Q4 is always our strongest cash quarter. We continue to review our system business for potential divestments of non-core activities and similarly as previously said we are considering making selective competence enhancing acquisitions subject to tight strategic and financial filters. Catering and technical services in the US remains the current focus.

We operate with the dividend policy targeting a payout ratio of approximately 50% of our profit before goodwill impairment. Our first dividend, post IPO of DKK4.90 per share or in total of DKK910 million was paid in April this year. Once we have reached our financial leverage target, we will maintain an efficient balance sheet through potential additional returns to our shareholders.

With this, I would like to hand back to Jeff to discuss our outlook.

Jeff Gravenhorst, Group Chief Executive Officer

Thank you Heine. So wrapping up on slide 19, our outlook for the full year is unchanged. We continue to expect organic growth for the full year between 2% to 4%. We've had a good start to the year, largely driven by the impact from new contracts. However, macroeconomic conditions remain challenging and in certain markets, notably also in Netherlands and in Brazil.

We continue to expect only very modest pickup in the economic growth across all markets and hence remain cautious on the likelihood of a meaningful pick up in our non-portfolio services, but overall, our emerging markets should still deliver healthy growth. But, if we take into account the latest divestments and the acquisition of GS Hall together with the currency movements to date, we expect to deliver total revenue growth of 5% to 8% in 2015.

This compares to the 5% to 7% we stated in March, but is due entirely to FX rate which continues to change. We will retain our focus on sustainable margin improvements in 2015, which will be supported by the ongoing strategic initiatives. We expect to deliver a margin for 2015 that is higher than the 5.6% delivered in 2014. Cash conversion will remain a priority and we expect our cash conversion to end the year above 90%.

Ladies and gentlemen, we are pleased with the start to 2015 are positive with regards to the outlook for the rest of this year. And finally, I would like to make you all aware of our Capital Markets Day which we will host on the 17th of September in London this year.

With this, I would like to open for the Q&A session.

Questions And Answers

Operator

Thank you. Will now begin the question-and-answer session. (Operator Instructions) We have a question from Mr. Jonas Guldborg Hansen from Carnegie. Please go ahead.

Jonas Guldborg Hansen, Analyst

Yeah, good morning gentlemen. Firstly, I would like to know what's your like-for-like growth was in Q1 and then given the margin performance in Latin America, could you give us an update on the Brazilian market, elaborate a bit more on the market that you didn't in the prepared statement here. And also on the expected impact on the margin going forward in Latin America and what can you do or rather what are you doing to mitigate the development. And then, third question would be, I know a lot of -- there's lot of moving parts in your EBIT -- EBITDA growth here in Q1, but are you able to tell us what the organic EBIT growth was in Q1? Thank you.

Jeff Gravenhorst, Group Chief Executive Officer

Thank you. If I start with the first question, I think it was like-for-like growth in Q1. Our organic growth is really that expression of what is the like-for-like growth year-over-year. So that's 3.1% is the growth year-over-year like-for-like. Then we've had impact from divestments of net minus 4% and of current year plus 6% and that give us the total revenue growth of 5%. But like-for-like growth organically, 3.1%.

In regards to Brazil, the question was a little bit more elaboration on what we'll have of impact and what are we doing about it. First and foremost, it is really a difficult macroeconomic backdrop in Brazil, right now the activity levels within the industry is pretty dire and a lot of our customer base, we saw the international customers, they are down scale. And of course we follow that downscaling, and that means that we are adjusting our cost base. Without adjustment of cost base, Brazil is an expensive country to reduce headcounts and that's why we had an impact on the margin so far.

I do expect that we will continue to see this challenging environment for the rest of 2015 and we will of course also have an impact on the margin from that perspective in Latin America. Overall, we expect to be within our guidance, of course, to improve margin over 2014. So from an overall perspective, it will not have an impact on our outlook.

We are adjusting the organization as we speak and taking the necessary actions and we're also moving into more positive growth scenarios. So we'll see growth improving during the year also with our focus on additional sales resources there.

So I'm actually quite okay with the future, but we will have a period where we are adjusting our structure, which has an impact on the margin, Brazil and the LatAm, but overall, again as I say, we still maintain a (inaudible) statement.

Jeff Gravenhorst, Group Chief Executive Officer

If you break down EBITDA, if we take it from the main components, yes, you're quite right there are certain moving parts in there. First of all, almost Q1 was in line with our expectations. And from that perspective, it's driven, the improvement is driven from the strategic initiatives, giving us that 10 basis points improvement.

Now, the way we look into the regions as you can see there is some healthy improvements in Western Europe and Pacific as examples, but those are really impacted by the divestment of the French landscaping business for example, because landscaping business in the first quarter as you can imagine during the winter period is relatively low margin, so not having that in this year has a positive impact on Western Europe has had the security sale in Pacific region.

So that improvement plus the strategic initiative improvements has been offset by the fact that we have higher corporate costs and because of being listed. So, basically that takes down the improvement overall to the 10 basis point. So when all comes sort of down to what do we believe is the underlying run rate improvement that is the 0% to 1% improvement in the margin.

Jonas Guldborg Hansen, Analyst

Okay, thank you.

Operator

Our next question comes from Mr. Michael Rasmussen from ABG. Please go ahead.

Michael Vitfell-Rasmussen, Analyst

Yes, good morning and well done on the results, guys. Three questions please. First, I'd like to ask into the margin growth also in the Nordics of 30 basis points. If you could just split out and tell us a little bit about your business process outsourcing programs, are these BPO benefits included in the DKK350 million to DKK450 million? And if you could explain how big a part of the 30 basis points margin improvement they are in the Nordics?

Second question on the Netherlands. Jeff, if you could make -- give us a bit of the same story as you did on Brazil, in terms of Netherlands, what's the status right now and what initiatives are you going to take?

And final question is on organic growth, I'm pretty sure you're not going to talk to me about the intra-quarter performance of organic growth, but maybe you could just repeat when during the quarter exactly you had the largest contract start-up space? Thank you.

Jeff Gravenhorst, Group Chief Executive Officer

Yeah. Thank you. Maybe Heine, if you can give us a little bit of update on the BPO particularly in Nordics.

Heine Dalsgaard, Group Chief Financial Officer

Sure. So, the benefit from the BPO projects are not included in the DKK350 million to DKK450 million from the procurement program. It is important to notice that the reason why we do BPO starting up in the Nordics, basically is twofold, one, it is to improve the quality of our financial processes, that is important to start, harmonizing and standardizing our financial processes across, this is the BPO project is an important step in that direction. The second reason why we do it, of course, has to do with cost savings, and it's not a coincidence that we start in the Nordics and Western Europe.

The average saving -- when if you just look at the saving, when we do BPO and in this case to India is around DKK200,000 per employee. So in total, since we've done around 50 people in the Nordic, the savings here when fully sort of rolled in is around DKK10 million in the Nordic countries. Assets, we will continue the BPO projects throughout Europe to start with, we are looking into now and implementing actually in Netherlands and in Belgium. The next one that we are analyzing right now is Australia and then we will move on to other European countries. So this was on the BPO side. Back to you, Jeff.

Jeff Gravenhorst, Group Chief Executive Officer

Thank you. And on the Nordic development and the margin side, as I also mentioned before, it's mainly driven by the fact that this is where we've done the strategic initiatives first. So in Norway, we're seeing the benefits from a more focused business and an organizational restructure, so that's impacting the margin also in the Nordics.

If you turn to Netherlands, the question is what is the status, as you recall, I've mentioned Netherlands a few times now and we went through that also last time. So basically there's nothing new to what we said in Q1. The Netherlands, it has been a difficult market for sometimes, the issues are both market related and structural and there are some very onerous labor laws in the Netherlands. And the appreciation of IFS offering, so the Integrated Facility Services, of course, could be higher. Having said that, we've just started up as we also mentioned on the Q1 call, the large business service and IT contracts started in Q2.

So, the focus is now on the new management team is on the commercial, general. So that's why we changed over from sort of structuring the platform in a different way, we're ready with that, but now is about the commercial, general going forward. It will take time, but I'm also confident that we're on the right track and we will see some improvements in that going forward.

On the organic growth intra-quarter split, you are absolutely right, we're not going to go into a lot of intra-quarter split. Of course we have contract starts up on Vattenfall, it was actually in the 1st of January. So we announced that already. And other than that the contracts starts sort of during the period, I would say we are -- as we said on the Q1 call, we saw on the Q4 call, that Q1 would be similar growth to that we ended with in Q4, which is pretty much the case. I think probably we started some of these contracts a little bit faster and with higher volume from start than we originally expected. So, I'm quite pleased with that development. But I think that's -- what we can give you of intra-quarter.

Michael Vitfell-Rasmussen, Analyst

Great, thank you. Heine, can you just add a bit more please on the BPO programs, I mean what is the staff count in Europe and the Pacific or in terms of total potential savings that you're looking into, please.

Heine Dalsgaard, Group Chief Financial Officer

Yes. So I said what we have implemented right now in the Nordics is little more than 50 people, the potential throughout Europe we have not looked at in total yet because we haven't done the analysis at all. We have only looked at Netherlands and at Belgium and the potential is around 20 to 30 people. We have not concluded finally on Australia, so we can't -- we don't disclose anything on that yet.

Michael Vitfell-Rasmussen, Analyst

Great. Thank you very much.

Operator

Our next question comes from Mr. Kristian Godiksen from SEB. Please go ahead.

Kristian Godiksen, Analyst

Hello gentlemen, this is Kristian from SEB. So to start with, so if you guys could give us some status on the Global Corporate Clients. So how confident are you to win any contracts in the second half, since you haven't won anything year-to-date. And then secondly, my question is more on the guidance. I guess if you can confirm that momentum is still to be built throughout the year as you said at the Q4 numbers, then why not raise the low end of the organic growth guidance since you are already in Q1 above the middle range.

And then thirdly, if you could give some flavor on the savings potential for the Phase 3 procurement project which you will start this year. So is it (inaudible) to say from what -- of the addressable spend is at the same as phase 1 or 2, or what should we think here? Thank you.

Jeff Gravenhorst, Group Chief Executive Officer

Thank you. If we start with Global Corporate Clients, it is very important for me to highlight that the ISS contracts, overall, that could both the large and also -- or the local contract could be as large as a Global Corporate Clients and that's why when we win international contracts like for example the Vattenfall contracts is relation between Sweden and Germany, the resources that goes into when these are also of course part of global team.

The same thing goes when we win a UBS contract in the UK is related to the relationship that we had on the overall UBS relationship. So it's a little bit difficult to just differ between the Global Corporate Client and large scale regional or country contracts. Having said that, we did actually win a large bank that we started up beginning of this year, at the end of last year. So that's being faced in here in the first part of the year, throughout the world. And of course we also have a pipeline of global clients, which we expect to convert some off during the year, we of course -- we don't actually disclose what exactly the number of accounts that we are going to or expect to win, but it's always very difficult to say whether it's global or its regional wins.

Right now, we've had very good traction on the regional side, the Danske Bank for example, is also a regional contract that goes across the Nordic and also the UK and Ireland. So that's again you could count on the Global Corporate Clients, its run by the local region as opposed to the global organization. But that's where it blurs [ph] a little bit.

So overall we actually quite happy with the development. Having said that, when you just look at the contracts we classify underneath Global Corporate Clients, its grown 6% on a like-for-like basis from first quarter last year. This is purely driven from the fact that we're onside picking up more non-portfolio and expanding the scope of services and right now we've also won an additional expansion scope on one of them in the US. So I'm actually quite happy with the performance overall for most of the Global Corporate Clients.

If you turn to the guidance for the year on growth, we have guided 2% to 4% for the year and at the first quarter we are right in the middle of that. And there's no doubt that we continue to see good wins as we've also announced, but we also continue to see challenging environment and particularly in Europe. So we find it realistic to keep the guidance between 2% to 4% for the year, because there is still a big uncertainty on the macro economic development for particularly the our largest region, which is Europe and of course, we still see some growth struggle in Brazil, as I mentioned before as well.

So with that in mind, I think it's the right thing to do is just keep the guidance for the year 2% to 4%. The third question was about savings potential on Phase 3, and we have not disclosed the savings target yet, because we are not finished with it. Of course, the addressable spend is lower than what we've seen earlier because of course we started with the lowest hanging fruit, we will revert to that as we get more caller to it over the next quarters.

Kristian Godiksen, Analyst

Okay, thank you. But just a quick follow-up Jeff on the Global Corporate Clients. So -- but do you see a structural change or it's a downsizing of companies instead of going global and going, say, more regional and then instead having a preference of being more local and then have larger contracts there? Or is it just a coincidence?

Jeff Gravenhorst, Group Chief Executive Officer

I don't actually see a change, but there is always been a matter of whether it's a regional contract or it's a global contract. Global also depends on how big is the customer that we are going to drive these services to, so you could argue that Danske Bank is a global contract for that matter.

So don't actually see a difference, but of course in the marketplace because this has been the case all the time. To me whether it's a contract that goes across 20 countries or across 10 countries, it's the same approach of aligning a consistent delivery across this -- this is where our strengths lie. So we will pursue both regional and global.

In the pipeline, we do have global accounts possibilities, but you don't really know until the last part of it whether it ends up in region or it actually takes to globe, but that's been the case all along. So I don't see any major structural changes in it. It's a little bit of what is the most doable for this client in this particular case.

Kristian Godiksen, Analyst

All right. Many thanks.

Operator

(Operator Instructions) Our next question comes from Mr. Jesper Jensen from Nordea. Please go ahead.

Jesper Jensen, Analyst

Thank you. Hi, I have a couple questions. The first one actually goes back to on the first questions on the call in terms of the underlying margin movement. I'm just trying to understand what's the benefit from the M&A that you've done over the year, the year -- if we look at GS Hall for example, that adds 2 basis points to the quarterly results. So, of the 10 basis points, so you move ahead where it's largely two of them is to GS Hall. You also mentioned that you benefited from landscaping being in the numbers last year. So I'm just trying to understand whether, of the 10 basis points that we are ahead of last year, isn't like half of that more or less M&A related, is that sort of wrong assessment? That's the first question.

Heine Dalsgaard, Group Chief Financial Officer

So you are absolutely right, Jesper. There is a positive impact from the GS Hall acquisition, worth mentioning is that it's in from -- in two months rights, and it's in with DKK111 million in revenues, so it is in the total picture relatively small impact.

And you also right, that there is a positive impact from divestments. And on top of that there is a positive impact from FX. We do not disclose the splits between the different elements. It is worth mentioning, as we have said before that there is a significant negative impact as expected from the fact that our corporate costs are going up from 0.5% of revenues to 0.8%. This is in line with our expectations. This is in line with what we've communicated, it's clear. If you look at Q1 isolated, last year in Q1 we were not listed, but we had 0.5, for the full year last year we had 0.7. So, corporate costs are just going up and two reasons, cost is being listed and then also costs of running these big strategic initiatives we are running for instance, it's great, and also the global procurement program.

Jesper Jensen, Analyst

Okay, that's great, thanks. I have a few other questions, the first one is, I guess on the pipeline at least I know in the Nordics there is some fairly large contracts out there at the moment the Swedish, Norwegian defense for example is one where I assume you would be well positioned, given you have the Danish defense and also the Danish railway is the big one coming up. But I just wondering whether you are actually pitching all these three and whether you can give us any idea of the timing?

Jeff Gravenhorst, Group Chief Executive Officer

Yeah, obviously, we don't disclose which ones we are pitching in on but large attracted customers and of course tenders are always on our pipeline, that's what I can say, yes. So, of course, we know about these contracts. In general, I would say we have a good pipelines all over in our operations. And as you can also see, we have had some strong wins also over the last couple of quarters. So from that perspective, we are positive.

Jesper Jensen, Analyst

Okay. And then just a little bit on the current quarter, obviously, you know where you pull and you tell us, obviously, you're confident with your guidance as it is for the year. Just wondering whether you can give a little bit of color on the months [ph] and whether the trends are similar to Q1 or whether you expect any material seasonality if you look over the rest of the year in terms of your organic growth profile, obviously, depends on whether there is any sort of pick up, but let's assume it stays as it is. Is it the 3% growth we're looking at?

Jeff Gravenhorst, Group Chief Executive Officer

Yeah. Thank you for that question. I think the first quarter we have just come out of this 3.1%. The full year, we expect to be 2% to 4%. We do expect the macroeconomics in Europe to be a difficult part, I think intra quarters, we don't go further into details now.

Jesper Jensen, Analyst

Okay, fine. Last one just coming back to something we talk about last year and that was obviously focusing on profitable growth, given some of your competitors were going in another direction. And I was just wondering whether you see any changes at all at the moment in the competitive landscape?

Jeff Gravenhorst, Group Chief Executive Officer

No. We have exactly the same focus. It's important for us to improve our margin year-over-year. And it's important that we continue to deliver the value to the customers as they deserve it and that means, of course, also, we are focused on profitable growth, that is our focus.

Jesper Jensen, Analyst

And do you feel your competitors are hedging in the same rationale way at the moment?

Jeff Gravenhorst, Group Chief Executive Officer

I don't see any change in the marketplace, you will always have some that are of the smaller local players that have a different value proposition. I think from the big players its business as usual.

Jesper Jensen, Analyst

Okay, thank you.

Operator

Our next question comes from Mr. Poul Ernst Jessen from Danske Bank. Please go ahead.

Poul Ernst Jessen, Analyst

Yes, thank you. A few questions about the contracts you mentioned the UBS, the Danske, Huawei and Vattenfall. Can you give an indication if you put them all together and do it on an annualized basis, how much revenue does those contracts combined at? Second question about, you talk about restructuring in some of the markets, could you give an indication on how much restructure we should assume to put into the numbers for the full year?

And then finally on the PPA amortization, you have changed the principle to a straight line amortization, does that mean that we should take the Q1 level of 160 million and put forward for the coming years until it's all written off? Thank you.

Jeff Gravenhorst, Group Chief Executive Officer

Thank you. If I start with the UBS, Vattenfall and so forth, we don't actually disclose the individual revenue size for these contracts neither aggregate or individually. So you have to look into our guidance for the growth and just accept that it's part of that. We don't do this for two reasons, one is that we generally not allowed by our clients and two, it is very difficult to face that into our -- I'll give the facing of the exact quarterly hit. So we don't do this, of course from competitive reasons as well. Number two, if Heine, maybe you will take the restructuring charge and the PPA.

Heine Dalsgaard, Group Chief Financial Officer

Sure. So it is clear that we will step up certain of the restructuring initiatives through the year as we roll out our excellence projects across more countries in -- across the world over the coming months. So we do expect other expenses to increase over the next quarters compared to Q1 which was very low. Remember that these charges, Poul, as you know are non-ordinary, so we don't give any sort of guidance on them.

So that was on restructuring. On amortization, you're absolutely right. We changed the principle for amortization of customer contracts and we initially applied the declining balance method, which we think is the right method to start with. However, the weakness of the method is that amortizations will never be a sort of the customer contract value will never be fully amortized, which we believe sort of does not reflect reality.

So now after 10 years of applying the declining balance method, we believe that it is now the right time to change the method to apply the straight-line method. This means that over the next sort of four to five years, the previous customer contracts will be fully amortized. We believe this is more prudent. And then your specific question, yes, it is the same level we see for the coming quarters since now we've moved to the straight line, of course subject to FX moves and whatever. But overall, yes, it is the same level.

Poul Ernst Jessen, Analyst

Okay. Thank you.

Operator

(Operator Instructions) We have no further questions from the telephone.

Jeff Gravenhorst, Group Chief Executive Officer

Okay, thank you very much everybody. Thank you for joining the conference call today and look forward to obviously reminding you again that for the Capital Markets Day on the 17th September in London. Thank you.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participants. You may now disconnect.